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TAGS: EFIN ECON PGOV I
SUBJECT: BANK MELLI BRANCH LICENSES EXTENDED

REF: A. (A) 09BAGHDAD 3228
 IB. (B) 09STATE 115821

Classified By: Classified By: Robert S. Ford, Charge d,Affaires, a.i.,
for reasons 1.4 (b) and (d).

¶11. (S) SUMMARY. Despite assurances from the Prime Minister's office that it would not renew licenses for new Bank Melli branches in Basra, Karbala and Erbil, the Central Bank of Iraq instead extended the licenses. The Embassy will continue to engage with the Prime Minister's office to ensure that the GOI implements a policy that limits Bank Melli's expansion in Iraq. END SUMMARY.

Prime Minister's Office Action

¶12. (C) In late December, the Prime Minister's Chief of Staff, Tariq Abdullah, informed DCM Ford that the GOI would not renew the preliminary licenses for Bank Melli's proposed branch offices in Basra, Karbala, and Erbil. These licenses authorized preparations for opening the branches, but not banking operations, and were due to expire on December 31, ¶2009. As the supervisory authority over the banking sector in Iraq, the CBI was responsible for implementing this order from the Prime Minister's Office.

Central Bank of Iraq Inaction and Reaction

¶13. (C) On December 31, CBI Governor Sinan al-Shabibi asserted to the Acting Treasury Attaché that CBI has followed all orders from the Prime Minister's Office on Bank Melli. However, Shabibi also stated that he was not certain about Bank Melli's presence in Iraq, and that he has delegated all responsibility for Bank Melli and banking sector supervision in general to the CBI's Director of Banking Supervision, Waleed Eidy. (COMMENT: Lack of attention toward this issue by Shabibi may be plausible. Shabibi is responsible for a wide range of issues including monetary policy, debt relief, and banking sector regulation and reform, and he spends a considerable amount of time outside of Iraq. END COMMENT.)

¶14. (C) In a follow-up meeting on January 13, CBI Director of Banking Supervision Waleed Eidy told Emboffs that the CBI had actually extended all preliminary branch licenses (including Bank Melli's) because of the difficulty of doing business in Iraq. Eidy added that Bank Melli had requested an inspection of its proposed branch in Basra, a necessary step towards obtaining authorization to begin banking operations.

¶15. (C) During the meeting, Eidy expressed highly favorable views of Bank Melli as a business. Eidy asserted that CBI is aware of the importance of complying with the U.N. Security Council Resolutions on Bank Melli and actively monitors Bank Melli's operations in Iraq. According to Eidy, CBI sends examiners to Bank Melli's Baghdad branch at least once a month, and Bank Melli has always cooperated with these examinations.

Back to the Prime Minister's Office

¶16. (C) On February 10, 2010, the DCM informed Abdullah of Eidy's apparent ignorance of the order from the Prime Minister's Office. Abdullah clarified that the Prime Minister's office did not issue the order in written form because of the "sensitivity of the issue," but that it definitely conveyed the order to the right officials to implement it. The DCM also noted the USG's concern about CBI's new policy of extending licenses, which appeared to have allowed Bank Melli to retain its licenses for new branches. Abdullah was unaware of this new policy and said that he would see if it could be reversed.

Comment

¶17. (S) The decision by the Prime Minister's Office not to renew Bank Melli's licenses for new branches represented a step forward in GOI willingness to take action to limit the spread of Iranian banking in Iraq. However, the CBI's failure to carry out the Prime Minister's office's directive, either because the PM's office failed to communicate the order appropriately or because of resistance at the CBI, suggests that the GOI lacks a strong chain of command for implementing decisions in this area. Eidy's complimentary comments about Bank Melli also point to an individual bias in favor of the Iranian bank, at a level of CBI management crucial to resolution of this issue. The Embassy will continue to engage with the Prime Minister's Office and the CBI to underscore the urgency of limiting Bank Melli's operations, including by reversing the CBI's action extending Bank Melli's licenses for branches in Basra, Karbala and Erbil, while also urging the GOI to pursue a consistent policy to limit Bank Melli's expansion in Iraq.

FORD